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The Manufacturers Hanover
Financial Digest
Weekly Commentary, Selected Financial Data, and Business Indicators

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The Federal Reserve . . .

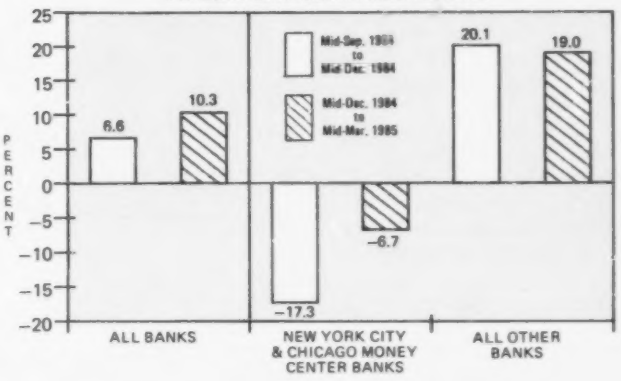
With the late-March meeting of the Federal Reserve's policy-setting Federal Open Market Committee now concluded, the financial markets are once again doing one of the things they apparently like to do best—speculate on the future course of monetary policy. Although fears had existed as recently as a month ago that the Fed might have to tighten the money and credit reins a notch in response to what was thought to be a robust pace of business, not to mention overly rapid money supply growth rates, it now appears a better bet that any monetary policy tightening will be put on hold for a while; indeed, there may well be a slight tilt toward further accommodation.

This is because of several reasons. First, sufficient doubts still exist regarding the strength of today's business expansion, particularly in the goods-producing sector of the economy where numerous industries are being negatively affected by rising imports. Then there are widespread expectations that the growth of the money supply has already begun to slow. Finally, there seems to be a reluctance on the part of the central bank to do anything which could result in a further strengthening of the dollar in the foreign exchange markets.

. . . Holds The Policy Reins Steady

Perhaps the top priority at the Fed in the coming months will continue to be to ensure that today's business expansion remains on track, especially in light of the still modest rates of inflation. This has been confirmed by both word and deed. Reference is made, in particular, to comments by Federal Reserve Governor Martha Seger before the Senate Banking Committee that the "Fed must strive to keep the economy going at a reasonable pace of three to four percent real growth." This came after Fed Chairman Paul Volcker's presentation of this year's monetary targets as bands as well as cones, in order to avoid the need to firm policy in response to what otherwise would have been above-target money supply growth. By switching public attention to a wider band of permitted money growth levels—especially now that M1 growth has slowed in recent weeks, putting its year-to-date growth near the top end of this wider target band—the Fed has reduced fears of tighter credit since central bankers have said that the growth of all the targeted aggregates will return to their target ranges.

COMMERCIAL & INDUSTRIAL LOANS OUTSTANDING
LATEST 13 WEEKS VS. IMMEDIATELY PRECEDING 13 WEEKS
(PERCENT CHANGE AT ANNUAL RATE)



On the other hand, although a fair degree of accommodation is likely in coming weeks, especially in light of trends in the real economy, the money supply, not to mention the difficulties of several Ohio thrift institutions, it is unlikely that the Fed will attempt to push interest rates sharply lower. Some of the more recent weaker business statistics may have been artificially dampened by severe weather in February and could well have rebounded smartly in March. This, together with the potential for more rapid money growth in the spring as personal income tax refunds are distributed, suggests that the present posture of monetary policy will remain steady in the weeks ahead.

At The Money Center Banks . . .

With monetary policy in a holding pattern, perhaps the most important determinant of the near-term interest rate outlook will be the strength of economy-wide credit demands—in particular, those of business. As of now, it appears that this year's more subdued growth of cash flow, lower long-term interest rates and a stronger tone in the equities market will have important effects on the finances

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of corporate America. To fill a widening gap between internally-generated funds and business outlays for inventories, plant and equipment, many corporations will turn to the bond markets both here and abroad, as well as to the equity and commercial paper markets.

Some corporations are seeking to fund short-term debt in the bond markets. The volume of corporate fixed-income securities in shelf registration alone soared past the $70 billion mark as of mid-March, almost 25 percent higher than at the beginning of the year. Others are seeking to add equity, rather than debt to their balance sheets. During the first two months of this year, cash offerings are estimated to be running at an annual rate some 40 percent higher than full-year, 1984 levels.

. . . A Steady Slump In Loan Demand

While these trends could spell a lackluster year for bank lending, holding commercial and industrial (C & I) loan growth to below the almost 15 percent rate of rise usually experienced at this stage of the business cycle, loan demand so far remains moderately strong, especially outside the money centers (see chart on page 1). C & I loans outstanding over the past three months have risen at a better than a ten percent annual rate; 15 percent over the past month. The money center banks, however, have yet to share in this upturn. C & I

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 3/27/85	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	168.108	– .290	+ 9.790
Loans to Depository Inst.	.897	– .784	– .298
Float	.252	– .077	– .229
Total Reserve Bank Credit	181.159	– 1.050	+12.203
Treasury Deposits with Federal Reserve Banks	4.280	+ .462	– .078
Currency in Circulation	178.850	– .450	+10.587
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	115.079	– .427	– 2.486
	3/27/85		
Member Bank Reserves:			
Total Reserves Held	39.732	– .322	+ 3.355
Excess (Deficiency)	.668	– .083	– .057
Net Free Reserves**	.218	+ .108	+ .598
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates†			
M1 (3/18/85)	570.1	+ 11.5‡	+ 6.5‡
M2 (February '85)	2,419.8	+ 12.6	+ 9.2
M3 (February '85)	3,040.7	+ 10.9	+ 10.9
Domestic Nonfinancial Debt (4th Q'84)	5,970.8	+ 14.4	+ 13.6

†Seasonally adjusted.
**Redefined.
*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 4/4/85	3 Months	6 Months	1 Year
‡U.S. Treasury Bills	8.20%	8.61%	8.83%
*Federal Agencies	8.75	9.20	9.75
*Project Notes—Taxfree (46% Taxable Equivalent)	7.87	8.52	8.89
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
*Secondary Market—Prime	8.77	9.15	9.85

‡Finance Company Paper—Prime		‡*Bankers' Acceptances	
5- 14 days	8.40%	May	8.65%
15- 29 days	8.50	Jun.	8.65
30- 59 days	8.60	Jul.	8.70
60- 89 days	8.65	Aug.	8.75
90-179 days	8.75	Sep.	8.80
180-239 days	8.88	Oct.	8.80
240-270 days	8.90		

‡Industrial Paper—Prime			
30- 89 days	8.55%	†Federal Funds Effective Rate	8.55%
90-120 days	8.65		

‡Discount basis. *Subject to availability. †Estimated.

Selected Business Indicators

(All Dollar Figures In Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	4th Q'84	$ 3,759	$ 3,695	$ 3,432
Gross National Product (1972 Dollars)*	4th Q'84	$ 1,662	$ 1,645	$ 1,573
Percent Change, Annual Rate	4th Q'84	4.3	1.6	5.9
Change in Consumer Prices*	Feb '85	3.6%	2.4%	4.8%
Change in Producer Prices*	Feb '85	– 1.2%	0.0%	3.6%
Civilian Employment (Thousands of Persons) †	Feb '85	106,685	106,391	103,888
Unemployment as % of Civilian Labor Force†	Feb '85	7.3%	7.4%	7.8%
Personal Income*	Feb '85	$ 3,141	$ 3,131	$ 2,924
Leading Indicators Composite Index (1967=100)†	Feb '85	167.5	166.4	166.5
Industrial Production Index (1967=100) †	Feb '85	164.7	165.5	160.0
Net Change in Consumer Installment Credit †	Jan '85	$ 7.22	$ 6.82	$ 5.40
U.S. Merchandise Trade Balance †	Feb '85	–$ 11.45	–$ 10.29	–$ 10.38
Plant and Equipment Expenditures*	1st Q'85	$337.85(a)	$321.40(a)	$293.15
Private Housing Starts (Thousands of Units)*	Feb '85	1,638	1,841	2,208
New Construction Expenditures*	Feb '85n	$ 320.6	$ 316.2r	$ 300.4
Total Business Inventories †	Jan '85	$ 568.4	$ 566.3	$ 518.1
Total Business Sales †	Jan '85	$ 415.5	$ 418.5	$ 401.1

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

loans outstanding at New York City and Chicago reporting banks dropped at an almost seven percent annual rate over the past quarter; in New York alone, C & I loans outstanding at its large reporting banks dropped at a better than eight percent clip over the past 13 weeks.

By contrast, loan demand at nonmoney center banks has been advancing quite rapidly. The increase amounts to a 19 percent annual rate over the past 13 weeks; 17 percent over the past year. If the past is any guide, this could be a harbinger of future trends at the New York City banks. One reason for the wide divergence is that while a diminished pace of merger and acquisition activity has produced softer loan demand at the large banks, the need by growing small- and medium-sized businesses to finance a rising level of inventory has bolstered borrowings at the smaller ones. Another may be that these smaller borrowers possess more limited financing alternatives than the corporate giants. More sizable firms have, for example, stepped up their issuance of less costly commercial paper, while paying down money center bank loans. Over the past six months alone, nonfinancial company commercial paper outstanding has increased by $8 billion, while C & I loans at New York City money center banks have dropped by $3 billion. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (3/20/85)	157,025	+ 336	+13,986
New York City (3/20/85)	33,395	– 42	+ 4,212
Commercial Paper (3/20/85)	247,656	– 1,217	+50,329

Bank Loans

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Commercial and Industrial Loans			
Weekly Reporting Large Commercial Banks			
Nationwide (3/20/85)	256,111	+ 1,207	+ 23,040
New York City (3/20/85)	62,178	+ 326	+ 1,360
Total Loans and Leases Gross Adjusted			
Nationwide (3/20/85)	664,768	+ 3,222	+ 70,724
New York City (3/20/85)	143,917	+ 551	+ 11,634

Financial Markets

	Thursday 4/4/85	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	8.40%	– .05	– 1.26
180-Day Bills†	9.13	+ .10	– .65
Longest Bills†	9.54	+ .08	– .27
Recent Issues:			
10 3/4s 3/31/87	10.51	+ .08	
11 1/4s 3/31/89	11.18	+ .06	
11 1/4s 2/15/95	11.75	+ .10	
11 1/4s 2/15/15	11.74	+ .09	
Municipals:			
Bond Buyer–20 Bond Index* (4/3/85)	9.63%	– .12	– .41
Blue List Total ($ Million)	$1,271	– $192	– $ 321
30-Day Visible Supply ($ Million)	$3,937	– $ 50	+ $1,672
Total	$5,208	– $242	+ $1,351
Corporates:			
Moody's Aa Composite (4/3/85)	12.89%	– .05	– .57
30-Day Visible Supply ($ Million)	$ 555	+ $ 80	– $1,070
Stocks:			
Dow-Jones Averages:			
Industrials	1,259.05	– 1.66	+ 128.50
Transportation	590.79	– 9.30	+ 105.40
Utilities	153.83	+ .98	+ 28.88
65 Stocks	510.79	– 2.07	+ 68.97
Standard and Poor's 500 Stocks	179.03	– .51	+ 23.99
N.Y.S.E. Composite Index	103.71	– .27	+ 14.38
N.Y.S.E. Avg. Daily Vol. for Week (000's)	93,625	–11,500	+ 1,557

* 46% Taxable equivalent 17.83%.

† Bond equivalent.

International Rates

	Thursday 4/4/85	Week Ago
EURODOLLAR DEPOSIT RATES (bid)		
Overnight	8.38%	8.63%
1 month	8.75	8.69
3 month	9.00	9.00
6 month	9.44	9.44
1 year	10.19	10.19
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	11.85%	11.85%
Long Term (7 to 15 yrs.)	12.00	12.00

FOREIGN EXCHANGE SPOT RATES New York Opening (4/4/85)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.01577	63.4200
Canada	.7267	1.3760
Denmark	.08889	11.2500
France	.1039	9.6250
Germany	.3171	3.1540
Italy	.0004974	2010.50
Japan	.003935	254.13
Mexico	.004065	246.00
Netherlands	.2809	3.5600
Switzerland	.3743	2.6715
U.K.	1.2065	.8288

Woodcut illustration from Columbus' letter to the Spanish Court, 1493

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